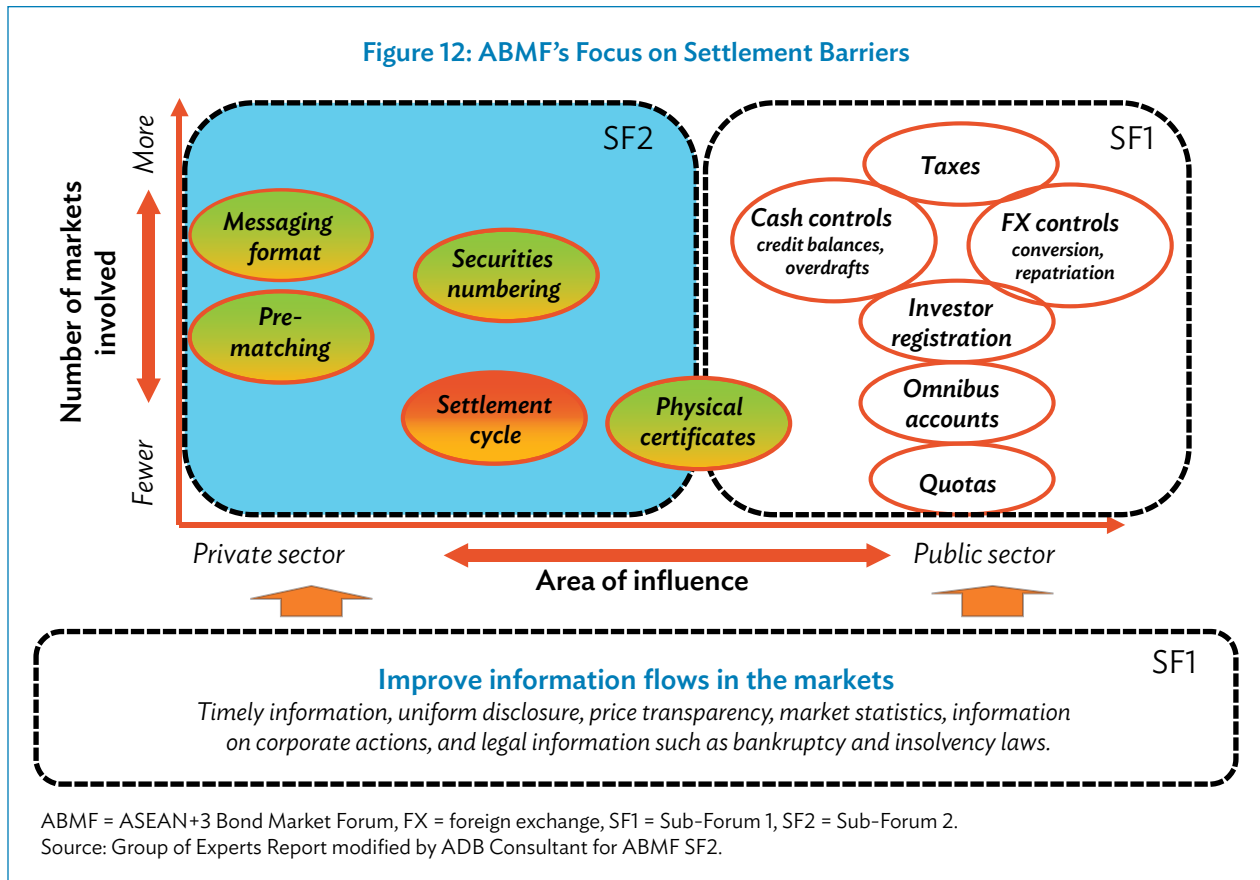


Updating the Status of Settlement Barriers

When it was launched in 2010, one of the main objectives of ABMF, as revealed in the results of a survey of the Group of Experts, was the removal of settlement barriers (Figure 12).

ABMF SF2 members and experts focused on mitigating settlement barriers through discussions and activities under Phases 1, 2, and 3. User requirements and market practices, including legal and regulatory issues, still need to be harmonized and standardized. In this section, the current status of these barriers in ASEAN+3 is discussed.

This report does not suggest that all regulations and controls need to be abolished, since many are essential to protect ASEAN+3 economies from external turmoil. As such, it should be the discretion of regulators and central banks in individual economies whether and when



to remove such regulations and controls. For this reason, it is important that the current status of settlement barriers are surveyed and clarified.

Barriers Related to ABMF SF2

Message standard

The standardization of messages based on ISO 20022 is progressing in ASEAN+3. As shown in this report, either ISO 20022 or ISO 15022 has already been implemented in leading economies in ASEAN+3. Those economies that have not yet adopted an international standard for messages are planning to implement ISO 20022 when their CSD and RTGS systems are in the process of being reconstructed.

Pre-matching

Lack of automated pre-settlement matching was often identified as the cause of failure of delivery of a traded bond. As a result of the survey and discussions of ABMF SF2, implementation of an automated PSMS is recommended and included as a part of the reference DVP model.

Securities numbering

All ASEAN+3 economies in which bond markets exist have adopted ISIN and established an NNA for ISIN issuance. According to the Phase 3 survey, the allocation of ISIN within 24 hours has been achieved in most of the economies. Dissemination of bond-related information associated with ISIN has been recognized as an important issue. Those economies that do not yet have an NNA understand the importance of establishing one. ADB and ANNA are ready to support them.

Settlement cycle

ABMF SF2 has surveyed the settlement cycle of both government bonds and corporate bonds in each market and found wide differences among ASEAN+3 economies. In addition, settlement cycles can differ for government bonds and corporate bonds, and for bonds traded by residents and nonresidents, in the same economy. This remains a challenge for cross-border trade and settlement; however, the issue needs to be addressed globally because a regional solution might risk impeding transactions with the other parts of the world.

Physical certificates

Bonds are dematerialized or immobilized in all economies that already have bond markets in the region, although physical certificates (mainly for corporate bonds) remain in some economies. Bonds are completely dematerialized in the People's Republic of China and Japan.

Other Remaining Challenges

The following issues related with taxation and regulations remain challenges.

Taxation

ABMF SF2 has also discussed taxes related to interest payments and redemption. Some economies impose a capital gains tax and stamp duty for a bond traded by a foreign investor, though these are normally exempted in most other markets. Taxes related to interest payments are another important remaining challenge.

Capital Controls and Cash Controls

The People's Republic of China maintains capital controls that require permission from the authorities to invest inside and outside of the domestic economy. Thailand restricts the cash holdings of foreigners. All other ASEAN+3 markets—except Hong Kong, China; Japan; and Singapore—require regulatory reporting based on the real-demand principle, a requirement to substantiate the underlying transaction for foreign exchange. SF2 members have recognized the need for such controls and reporting requirements; on the other hand, the regulatory reporting process could potentially be standardized if the objectives of the reporting were similar.

Account Structure

The account structure of each CSD differs by economy, mainly because of regulations and taxation. An omnibus account structure may be more convenient than a segregated account structure from a cross-border trade and settlement perspective. However, there is also an emerging trend of adopting a segregated account structure, with consideration of the transparency of the market. Account structure is another important subject and further study is needed.